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July 10, 2023

John Crandall, Chairman
Private Activity Bond Board of Review
140 East 300 South
Salt Lake City, UT 84111

Dear Chairman Crandall,

As you know, tax-exempt volume cap allocated by the Private Activity Bond Board of Review ("Board") generally acts as a key, a key which unlocks access to 4% federal Low-Income Housing Tax Credits ("LIHTC") – an essential source of equity in the funding of affordable multifamily projects. Utah Housing Corporation ("Corporation") is the state's allocator of federal and state LIHTC.

The Board will consider at its July 12, 2023 meeting, an application for volume cap from the Housing Authority of Salt Lake City and Ethos Real Estate ("Applicant") for its Book Cliffs Lodge project. This letter is to advise the Board of numerous concerns we at the Corporation have regarding this project and application. Some of our concerns are so substantial that they would lead us to *not recommend* that our Board approve any allocation of federal or state LIHTC at this time.

Additionally, it's important to note that PAB and LIHTC application data are processed through a common portal at the Corporation, and such data is consistently and necessarily congruent. However, we note that two weeks after submitting the application in our portal, the Applicant provided a revised spreadsheet to PAB program staff which contains significantly differentiated data. Detail on our concerns is outlined below:

- The project's debt coverage ratio is 1.07, well below the Qualified Allocation Plan ("QAP") requirement of a minimum 1.15.
- The projected increase in rent revenue is 5.72% per year, which is exceptionally high. Typically applicants project a 2% increase. This is not a threshold, but an aggressive rent increase projection will not be acceptable to a lender.
- Miscellaneous income per unit is projected exceptionally high at \$146 per unit per month (representing elective fees such as a Comcast bundle of services, all optional). Typically applicants project a more modest figure in the range of \$50-\$75 on 4% LIHTC projects.
- Expenses are inflated at a rate of 3% per year. Our QAP requires that expenses be inflated at a rate that is at least 1% higher than rent increases. Growth in expenses generally outpaces growth in rents, often considerably so.
- Operating expenses are quite high. Given that this project is not Permanent Supportive Housing, does not propose to deliver onsite services, and is all one-bedroom units, operating expenses should be more in line with our overall average of \$6,402.
- This is a small project – 55 one-bedroom units. It's a much better fit to the 9% LIHTC program, especially in that it is trying to accommodate some 25% AMI units. This project has applied six times previously in various 9% reservation cycle rounds. Reasons for application failure ranged from not meeting threshold requirements (such as site control) to simply not maximizing available points.
- The project application is relying on a large allocation of state LIHTC, which won't be determined until late this year.
- All units, including the 35 60% AMI units, have project-based Section 8 vouchers. Vouchers are a limited resource and are best used on deeper targeted units. This is a suboptimal use of such limited resource.

The new application has adjusted some numbers in an effort to make it conform with QAP thresholds. Of note:

- The Applicant reduced its tax credit request, which reduces the amount of equity into the project. While this is acceptable, the developer must use other sources to plug the equity gap. In this case, they propose to rely on state LIHTC (a very limited resource) to achieve this.
- The Applicant has reduced total development costs in large part by nearly eliminating rent-up reserves (required by lenders), miscellaneous bond fees, and construction interest. These are not realistic reductions.
- The Applicant reduced the interest rate on the perm loan from 7.25% (as supported by the LOI from the lender) to 5.8% (no support).
- The debt coverage ratio is now 1.35, well over the QAP maximum of 1.25.

Please let us know if you have questions about this information.

Sincerely,

A handwritten signature in black ink, appearing to read 'David Damschen', with a long horizontal flourish extending to the right.

David Damschen
President & CEO
ddamschen@uthc.org